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104TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
104–373

JUST COMPENSATION OF PATENT OWNERS FOR UNLICENSED USE BY UNITED STATES

NOVEMBER 30, 1995.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MOORHEAD, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H.R. 632]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 632) to enhance fairness in compensating owners of patents used by the United States, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

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PURPOSE AND SUMMARY

The purpose of H.R. 632 is to help small business, independent inventors and nonprofit organizations recover the legal costs associated with defending their patents when the Federal government is found liable for taking and using them.

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BACKGROUND AND NEED FOR THE LEGISLATION

When the government takes a person's patent, he or she may bring suit to recover damages against the United States in the Court of Federal Claims under the Tucker Acts, 28 U.S.C. §§ 1346(a)(2) and 1491. 28 U.S.C. § 1498 provides the remedy for a patent owner plaintiff stating that he shall be awarded "reasonable and entire compensation" for the taking of his patent rights by the government. Courts have ruled that this "reasonable and entire compensation" is equal to the "just compensation" required by the Fifth Amendment for government takings by eminent domain. See *Waite* v. *United States*, 282 U.S. 508, 509 (1931). The assessment of litigation fees and costs against the United States in eminent domain cases is not required by the Fifth Amendment, and thus is not part of the "reasonable and entire compensation" required under 28 U.S.C. § 1498. Accordingly, such fees and costs can only be authorized by statute. *United States* v. *Bodcaw Co.,* 440 U.S. 202, 203 (1979).

Congress provided such authorization for legal fees and costs in cases related to the taking of real property by the United States when it passed the "Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970," 42 U.S.C. § 4654.[1] No such provision exist, however, for the taking of intellectual property, specifically in the case where the government is found liable for taking a patent. See *Calhoun* v. *United States,* 453 F.2d 1385, 1395–96 (Ct. Cl. 1972). H.R. 632 provides this authorization so that independent, non-profit and small business patent owners who have had their patents expropriated can recover the value of the patent as well as the expensive costs required to obtain their damages.

Some have suggested that the Equal Access to Justice Act of 1980, 28 U.S.C. § 2412 ("EAJA"), which makes the government liable for attorney's fees and costs to the extent that any such fees would be awarded against a private party, be relied upon in lieu of enacting the specific provisions of H.R. 632. Private parties are liable for fees and costs in "exceptional cases of patent infringement" under 35 U.S.C. § 285. The problem arises in the differing nature of a patent infringement suit against a private party compared with one levied against the government. A suit against a private party is based in tort whereas one against the government is based on eminent domain. *Leesona Corp.* v. *United States*, 599 F.2d 958, 966–969 (Ct. Cl. 1976). Suits against the government, unlike suits against a private party, authorize the government to take a license in any patent, and the government is never guilty of direct infringement of a patent insofar as direct infringement means tortious or wrongful conduct. *Decca Ltd.* v. *United States,* 640 F.2d 1156, 1166 (Ct. Cl. 1980); *ITT Corp.* v. *United States*, 17 Cl. Ct.

[1] 42 U.S.C. § 4654(c) provides:
(c) Claims against the United States—
The Court rendering a judgment for the plaintiff in a proceeding brought under section 1346(a)(2) or 1491 of Title 28, awarding compensation for the taking of property by a Federal agency, or the Attorney General effecting a settlement of any such proceeding, shall determine and award or allow to such plaintiff, as a part of such judgment of settlement, such sum as will in the opinion of the court or the Attorney General reimburse such plaintiff for his reasonable costs, disbursements, and expenses, including reasonable attorney, appraisal, and engineering fees, actually incurred because of such proceeding.

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199, 202 (1989). Because the suits are not directly analogous, it has been held that the EAJA does not apply to patent owners who must sue the government for infringement to recover just compensation. *De Graffenried* v. *United States,* 29 Fed. Cl. 384, 386–87 (1993). No owner has yet been able to recover any of its litigation costs under the EAJA. Under the Act, costs are required to be assessed against the government when a small business or non-profit claimant prevails in a suit in which it otherwise could have claimed fees and costs against a private party, but will not be awarded when the government's position in the litigation is "substantially justified."

Currently, equity cannot be done in reimbursing patent owners for fees and costs because the courts have generally taken the position that if Congress had intended to include such reimbursement, it should have said so specifically. That is what this bill does—it says so specifically. It authorizes the express recovery of reasonable costs and fees by small businesses, non-profit entities or independent patent owners who are forced to litigate against the government to obtain compensation for infringement by the government. Under the bill, the fees and costs in each case will be scrutinized by the Court of Federal Claims to assure that they are reasonable.[2]

HEARINGS

The Committee's Subcommittee on Courts and Intellectual Property held a hearing on H.R. 632 on June 8, 1995. Testimony was received from the following 8 witnesses: Representative Martin Frost, 24th District of Texas; The Honorable Bruce A. Lehman, Secretary of Commerce and Commissioner of Patents and Trademarks, Patent and Trademark Office, U.S. Department of Commerce; Mr. Gary Griswold, President, Intellectual Property Owners, Inc.; Mr. Michael Kirk, Executive Director, American Intellectual Property Law Association; Mr. Thomas Smith, President, Section on Intellectual Property Law, American Bar Association; Mr. Andrew Kimbrell, Director, International Center for Technology Assessment; Mr. Kenneth Addison, President, Oklahoma Inventor's Congress; Dr. Raymond Damadian, President and Chairman, Fonar Corporation.

COMMITTEE CONSIDERATION

On July 27, 1995, the Subcommittee on Courts and Intellectual Property met in open session and ordered reported the bill H.R. 632 by a voice vote, without amendment, a quorum being present. On October 17, 1995, the Committee met in open session and ordered reported the bill H.R. 632, without amendment, by voice vote, a quorum being present.

[2] As with other fee-shifting provisions, judges may determine the amount of reasonable fees and costs based on the "lodestar" calculation, which is made on the basis of an hourly rate which may not exceed that which the court considers acceptable in the community in which the attorney practices law, taking into account the attorney's qualifications and experience and the complexity of the case.

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VOTE OF THE COMMITTEE

Mr. Hyde called up H.R. 632 as reported by the Subcommittee on Courts and Intellectual Property. Mr. Moorhead then moved adoption of H.R. 632. The motion carried on a voice vote, a quorum being present.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Reform and Oversight were received as referred to in clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 2(l)(3)(B) of House rule XI is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 2(l)(C)(3) of rule XI of the Rules of the House of Representatives, the Committee set forth, with respect to the bill, H.R. 632, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 403 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 3, 1995.

Hon. HENRY J. HYDE,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 632, a bill to enhance fairness in compensating owners of patents used by the United States.

Enacting H.R. 632 would affect direct spending. Therefore, pay-as-you-go procedures would apply to the bill.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

JUNE E. O'NEILL, *Director.*

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 632.

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2. Bill title: A bill to enhance fairness in compensating owners of patents used by the United States.

3. Bill status: As ordered reported by the House Committee on the Judiciary on October 17, 1995.

4. Bill purpose: The remedy for unauthorized manufacture or use of a patented invention by the United States government is a suit in the U.S. Court of Federal Claims for reasonable and just compensation. H.R. 632 would expand the definition of reasonable and just compensation to include the fees of attorneys and expert witnesses, if the owner of the patent is an individual, a nonprofit organization, or a company with less than 500 employees.

5. Estimated cost to the Federal Government: As shown in the following table, CBO estimates that enacting H.R. 632 would increase mandatory spending for the payment of attorneys fees and expert witness fees from the Claims, Judgments, and Relief Acts account by about $3 million in fiscal year 1996 and $7 million over the 1996–2000 period.

[By fiscal year, in millions of dollars]

	1996	1997	1998	1999	2000
Changes in direct spending:					
Estimated budget authority	3	1	1	1	1
Estimated outlays	3	1	1	1	1

The costs of this bill fall within budget function 750.

6. Basis of estimate: According to the United States Court of Federal Claims, about 10 cases of patent infringement a year are filed against the federal government, and in about half of these filings the plaintiffs are not represented by attorneys. Because this bill would allow for the payment of fees of attorneys and expert witnesses, the Department of Justice expects that there would be some increase in the number of lawsuits filed against the United States. While it is difficult to predict the number of additional cases that would be filed under this bill, CBO expects a small increase in filings.

Based on information from the United States Court of Federal Claims, CBO expects that about half of the cases that are filed would result in the eventual award of attorneys' fees. The amount of such awards would depend on the complexity of the cases filed, the length of time it took to litigate the cases, and the outcome of the litigation. Based on the value of the judgments that have been awarded in past cases and the expectation of a small increase in the number of cases filed, CBO estimates that enacting this bill would increase direct spending by about $3 million in 1996 and about $1 million in subsequent years. The estimate for 1996 is slightly larger because of a recent judgment against the United States by a company that would meet the qualifications set forth in this bill.

7. Pay-as-you-go considerations: Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that enacting H.R. 632 would increase direct spending by about $3 million in fiscal year 1996 and

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$1 million in each of fiscal years 1997 and 1998. The following table shows the estimated pay-as-you-go impact of this bill.

[By fiscal year, in millions of dollars]

	1996	1997	1998
Change in outlays	3	1	1
Change in receipts	Not applicable		

8. Estimated cost to State and local governments: None.
9. Estimate comparison: None.
10. Previous CBO estimate: None.
11. Estimate prepared by: Susanne S. Mehlman and Rachel Forward.
12. Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee estimates that H.R. 632 will have no significant inflationary impact on prices and costs in the national economy.

SECTION-BY-SECTION ANALYSIS

Section 1

Section 1 of H.R. 632 amends 28 U.S.C. § 1498(a) by defining the term "reasonable and entire compensation" to include attorney's fees and costs. 28 U.S.C. § 1498 provides for damages where a plaintiff sues the United States for expropriating his patent.

AGENCY VIEWS

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, DC, October 17, 1995.

Hon. HENRY J. HYDE,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This presents the views of the Department of Justice on H.R. 632, a bill "To enhance fairness in compensating owners of patents used by the United States." We understand that this bill was marked up the Subcommittee on Courts and Intellectual Property on July 27, 1995. For the reasons set forth below, we oppose enactment of H.R. 632.

The remedy for unauthorized manufacture or use of a patented invention by or for the government is a suit in the Court of Federal Claims pursuant to 28 U.S.C. § 1498(a) for "reasonable and entire" compensation. The "reasonable and entire" compensation standard of recovery is identical to the just compensation standard embodied in the Fifth Amendment of the Constitution which is commonly applied in eminent domain cases. See *Leesona Corp.* v. *United States,* 599 F.2d 958, 967 (Ct. Cl.), cert. denied, 444 U.S. 991 (1979). Just compensation under the Fifth Amendment does not include costs or attorneys' fees. This is true for all types of eminent domain takings

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for which just compensation is required under the Fifth Amendment.

This bill would amend section 1498(a) by mandating that reasonable and entire compensation include "the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action" if the owner is an independent inventor, a nonprofit organization or an entity with less than 500 employees. This would single out actions under section 1498(a) for a more expansive award of costs and attorneys' fees than is available to claimants in other actions against the government. There is no apparent reason to accord such preferential treatment for suits under section 1498(a).

Under the Equal Access to Justice Act (EAJA), 28 U.S.C. § 2412, Congress has already provided for recovery of costs against the government. Section 2412(a) permits an award of costs against the government when the claimant prevails. It does not, however, mandate such an award. Moreover, section 2412(d) permits the award of attorneys' fees to certain individuals, nonprofit organizations and entities with less than 500 employees and having a net worth of less than $7,000,000 when the government's litigation position is not substantially justified. This was the result of long consideration and debate over the proper balance between the need to permit recovery of costs and attorneys' fees against the government in some cases and the desire to avoid encouraging claimants to advance untenable theories. There is no sound reason for adopting a different rule in the case of patent claims against the government from the EAJA rule on recovery of costs and attorneys' fees in other claims against the government.

Indeed, the bill expands the government's liability for attorneys' fees beyond that provided under the EAJA in two respects. First, under EAJA, attorneys' fees are only awarded when the government is unable to establish that its litigating position was substantially justified. Yet, under the present bill, if the patentee were able to establish liability, regardless of how close the questions of liability were, it would be entitled to recover its expert witness and attorneys' fees. Even in private patent infringement actions, which rest on a tort theory, rather than on an eminent domain theory, attorneys' fees are only awarded against a party in an "exceptional case." 35 U.S.C. § 285.

Second, section 2412(d) sets limits on the net worth of individuals and entities who may receive an award of attorneys' fees when the government's litigating position is not substantially justified. While the present bill mirrors some of the requirements of section 2412(d)(2)(B) in terms of the parties eligible for an award of attorneys' fees, it contains no limitation on the net worth of the individual inventor or the entity. Again, there is no reason to permit a broader measure of recovery of attorneys' fees for claims under section 1498(a) than provided generally against the government under the EAJA.

Moreover, permitting mandatory recovery of a patent owner's costs and attorney's fees can prolong cases and impede settlement by encouraging claimants to pursue unsupportable theories of recovery. At times, one of the most vigorously litigated issues in patent claims against the government is the amount of compensation

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that may be recovered. In three recent cases, the Court of Federal Claims, the Claims Court and their predecessor, the Court of Claims, noted that the claimants had pursued far more in compensation than could reasonably be supported. In Leesona, the Court of Claims stated that "the lengthy record" in that case "was dominated by plaintiff's and the trial judge's pursuit of a large award, attempting to make good the injury to business on a tort theory, wholly inadmissible in eminent domain." 599 F.2d at 979. In *ITT Corp.* v. *United States,* 17 Cl. Ct. 199 (1989), the court concluded its lengthy and thorough assessment of compensation by noting that the award was low "relative to plaintiff's expenditure of time and effort to achieve it." 17 Cl. Ct. at 243. Finally, in *De Graffenried* v. *United States,* 29 Fed. Cl. 384, 386 (1993), the court noted that the recovery by the patent owner, excluding delay compensation, was about $89,000, whereas the patent owner had sought an award of $5–$16 million, excluding delay compensation. In all three cases, the claimants prolonged the cases and added to the expense to the government in refusing to settle after liability was found and pursuing untenable theories of recovery. Under H.R. 632, the government would be liable for the patentee's costs and attorneys' fees even though they resulted from unwarranted contentions advanced by the claimants. Moreover, the fact that a patentee is assured of recovery of its attorneys' fees so long as it establishes liability, regardless of whether the government has acted reasonably in litigating the action, removes any incentive for a patentee to settle a lawsuit on a reasonable basis after liability has been established.

This bill also runs counter to Fed. R. Civ. P. 68 concerning offers of judgment. Under Rule 68, a party who fails to recover a judgment more favorable than that offered by a defendant prior to trial must pay the defendant's costs in defending the action after the offer was made. Yet, by mandating the award of costs to patentees in actions under section 1498(a) regardless of the reasonableness of their position, the bill departs from the goal of Rule 68 of encouraging claimants to realistically evaluate their cases.

In sum, we see no need for the amendment of section 1498(a) to provide for the mandatory recovery of costs and attorneys' fees since these are not components of just compensation under the Fifth Amendment, and the recovery of costs and attorneys' fees against the government is already dealt with in the Equal Access to Justice Act. We recommend against favorable consideration of H.R. 632.

Thank you for the opportunity to comment on this legislation. Please do not please to hesitate to call upon us if we may be of additional assistance in connection with this or any other matter. The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the presentation of this report.

Sincerely,

ANDREW FOIS,
Assistant Attorney General.

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CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italic and existing law in which no change is proposed is shown in roman):

SECTION 1498 OF TITLE 28, UNITED STATES CODE

* * * * * * *

§ 1498. Patent and copyright cases

(a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture. *Reasonable and entire compensation shall include the owner's reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action if the owner is an independent inventor, a nonprofit organization, or an entity that had no more than 500 employees at any time during the 5-year period preceding the use or manufacture of the patented invention by or for the United States.*

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